

Message Text

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

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TAGS: ECON, GW

SUBJECT: COUNCIL OF ECONOMIC EXPERTS: POTENTIAL IMPACT
OF OIL CRISIS ON THE FRG ECONOMY--NO REASON FOR PANIC

1. THE COUNCIL OF ECONOMIC EXPERTS HAS RELEASED A SPECIAL STUDY ON THE POTENTIAL IMPACT OF A SUSTAINED ENERGY CRISIS ON THE ECONOMY. THE STUDY IS BASED ON THE HYPOTHESIS THAT THE CRISIS CONTINUES THROUGH 1974 AND THAT THE SUPPLY OF OIL PRODUCTS FALLS SHORT OF OTHERWISE AVAILABLE QUANTITIES BY 20 PERCENT. MOST OF THE RESULTING LOSS OF SOME 30 MILLION METRIC TONS IS ASSUMED TO BE MADE UP FOR BY ECONOMIZING MEASURES AND SUBSTITUTION, LEAVING AN "EFFECTIVE" SHORTFALL OF 5-6 MILLION TONS.

2. ON THESE ASSUMPTIONS, THE COUNCIL EXPECTS REAL GROWTH OF GNP IN 1974 TO AMOUNT TO NO MORE THAN ONE
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PERCENT AND DOES NOT EXCLUDE THE POSSIBILITY OF AN

ABSOLUTE DECLINE BY ABOUT 0.5 PERCENT. NOMINAL GNP GROWTH IS ESTIMATED AT ABOUT 8 1/2 PERCENT. THE 1974 YEAR-ON-YEAR RATE OF INCREASE OF CONSUMER PRICES IS PLACED AT AT LEAST 7, POSSIBLY 8 PERCENT-- VERSUS 5.7 PERCENT IN 1972 AND AN ESTIMATED 7 PERCENT IN 1973. EMPLOYMENT AND WORKING HOURS ARE FORECAST TO DECLINE BY 2 PERCENT AND ONE PERCENT, RESPECTIVELY. UNEMPLOYMENT NEXT YEAR IS EXPECTED TO AVERAGE SOME 400,000 (460,000 DURING THE 1967 RECESSION).

3. THE COUNCIL EMPHASIZES THAT THERE IS NO REASON FOR PANIC. ONE OF THE EXPERTS SEES NEED FOR A GENERAL DEPARTURE FROM THE RESTRICTIVE COURSE. HOWEVER, THE REMAINING FOUR OF THE "FIVE WISEMEN" URGE ADHERENCE TO BASICALLY STABILITY-ORIENTED ECONOMIC AND MONETARY POLICIES--TO CHECK AGGREGATE DEMAND IN THE FACE OF REDUCED SUPPLY POTENTIALS RESULTING FROM THE ENERGY CRISIS. THEY AGREE THAT ADDITIONAL INVESTMENT WHICH WOULD HELP OVERCOME OIL-RELATED BOTTLENECKS BY CONVERTING TO OTHER RAW MATERIALS AND/OR OTHER FINAL PRODUCTS IS DESIRABLE. HOWEVER, IN THEIR VIEW, THIS SHOULD BE ACCOMPANIED BY REDUCED CLAIMS ON THE NATIONAL PRODUCT ON THE PART OF PRIVATE HOUSEHOLDS. THEREFORE, EFFECTIVE PAY INCREASES, UNDER CURRENT CONDITIONS, SHOULD NOT EXCEED 8.5 PERCENT. (NOTE: RECENT UNION DEMANDS HAVE BEEN IN THE 15-20 PERCENT RANGE WHICH WOULD GREATLY INTENSIFY CONSUMER DEMAND AND THE COST-PUSH AS WELL.

4. THE MAJORITY OF THE COUNCIL HAS NO OBJECTION TO THE CONTEMPLATED DISCONTINUATION OF THE 11 PERCENT INVESTMENT TAX. THEY ALSO ADVISE GOVERNMENT AUTHORITIES NOT REPEAT NOT TO CURTAIL PUBLIC INVESTMENT PLANS IN RESPONSE TO POSSIBLE REVENUE SHORTFALLS RESULTING FROM THE SLOWER PACE OF ECONOMIC ACTIVITY. HOWEVER, ANY FURTHER DISMANTLING OF THE GOVERNMENT'S 1973 STABILIZATION PROGRAM IS FELT TO BE DANGEROUS.
HILLENBRAND

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